

Keep America Beautiful, Inc.

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016, and
Independent Auditors' Report

KEEP AMERICA BEAUTIFUL, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Keep America Beautiful, Inc.:

We have audited the accompanying financial statements of Keep America Beautiful, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 14, 2018

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,248,019	\$ 2,784,114
INVESTMENTS (Note 10)	4,744,215	4,438,817
CONTRIBUTIONS AND OTHER RECEIVABLES (Note 5)	812,727	1,368,868
PREPAID EXPENSES AND OTHER ASSETS	112,437	185,777
FIXED ASSETS—Net of accumulated depreciation (Note 6)	<u>86,857</u>	<u>161,837</u>
TOTAL	<u>\$ 8,004,255</u>	<u>\$ 8,939,413</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 475,536	\$ 989,472
Deferred income grants (Note 8)	<u>439,417</u>	<u>555,813</u>
Total liabilities	<u>914,953</u>	<u>1,545,285</u>
NET ASSETS:		
Unrestricted	3,938,965	3,752,934
Temporarily restricted (Note 11)	<u>3,150,337</u>	<u>3,641,194</u>
Total net assets	<u>7,089,302</u>	<u>7,394,128</u>
TOTAL	<u>\$ 8,004,255</u>	<u>\$ 8,939,413</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
UNRESTRICTED REVENUES AND SUPPORT:		
Contributions and grants	\$ 2,786,005	\$ 3,023,315
Benefit dinner—net of expenses of \$318,652 and \$321,445 in 2017 and 2016, respectively	317,048	587,155
Fees (Note 3)	250,103	250,900
National and other conferences	177,408	185,950
Publication sales	9,314	20,575
Investment income	237,627	156,357
Unrealized gain (loss) on investments	323,343	(39,920)
Other income	543,357	80,145
Net assets released from restrictions (Note 12)	<u>4,137,556</u>	<u>3,478,636</u>
Total unrestricted revenues and support	<u>8,781,761</u>	<u>7,743,113</u>
EXPENSES:		
Program services:		
Communication and public education	358,468	353,753
Program and field training services	<u>6,801,509</u>	<u>6,299,568</u>
Total program services	<u>7,159,977</u>	<u>6,653,321</u>
Supporting services:		
Management and general	602,112	738,316
Fundraising	<u>833,641</u>	<u>800,515</u>
Total supporting services	<u>1,435,753</u>	<u>1,538,831</u>
Total expenses	<u>8,595,730</u>	<u>8,192,152</u>
EXCESS (DEFICIT) OF TOTAL UNRESTRICTED REVENUES AND SUPPORT OVER TOTAL EXPENSES	186,031	(449,039)
UNRESTRICTED NET ASSETS—Beginning of year	<u>3,752,934</u>	<u>4,201,973</u>
UNRESTRICTED NET ASSETS—End of year	<u>\$ 3,938,965</u>	<u>\$ 3,752,934</u>
GIFTS AND GRANTS RESTRICTED FOR FUTURE PERIODS	\$ 3,646,699	\$ 4,315,666
NET ASSETS RELEASED FROM RESTRICTIONS (Note 12)	<u>(4,137,556)</u>	<u>(3,478,636)</u>
(DECREASE) INCREASE IN RESTRICTED NET ASSETS	(490,857)	837,030
RESTRICTED NET ASSETS—Beginning of year	<u>3,641,194</u>	<u>2,804,164</u>
RESTRICTED NET ASSETS—End of year	<u>\$ 3,150,337</u>	<u>\$ 3,641,194</u>
(DECREASE) INCREASE IN TOTAL NET ASSETS	<u>\$ (304,826)</u>	<u>\$ 387,991</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (304,826)	\$ 387,991
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	79,946	77,541
Donated securities	(159)	(10,424)
Realized gain on investments	(134,288)	(67,456)
Unrealized (gain) loss on investments	(323,343)	39,920
Bad debt expense	-	300,000
Changes in assets and liabilities:		
Decrease (increase) in contributions and other receivables	556,141	(431,844)
Decrease (increase) in prepaid expenses and other assets	73,340	(39,790)
(Decrease) increase in accounts payable and accrued expenses	(513,936)	243,582
(Decrease) increase in deferred income grants	<u>(116,396)</u>	<u>223,443</u>
Net cash (used in) provided by operating activities	<u>(683,521)</u>	<u>722,963</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities	(3,391,091)	(1,848,664)
Proceeds from sales of securities	3,543,483	1,276,559
Purchases of fixed assets	<u>(4,966)</u>	<u>(78,271)</u>
Net cash provided by (used in) investing activities	<u>147,426</u>	<u>(650,376)</u>
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(536,095)	72,587
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,784,114</u>	<u>2,711,527</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,248,019</u>	<u>\$ 2,784,114</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 111,113	\$ 304,829	\$ 415,942	\$ 261,310	\$ 475,438	\$ 736,748	\$ 1,152,690
Payroll taxes	9,392	23,884	33,276	20,994	34,289	55,283	88,559
Employee benefits	32,271	63,224	95,495	81,817	73,320	155,137	250,632
Rent and services	25,386	190,071	215,457	33,197	55,979	89,176	304,633
Stationery and supplies	832	2,440	3,272	1,138	1,836	2,974	6,246
Postage	909	4,207	5,116	670	1,835	2,505	7,621
Telephone	2,439	5,449	7,888	4,281	5,376	9,657	17,545
Computer systems	54,095	19,111	73,206	15,423	23,203	38,626	111,832
Dues and subscriptions	2,327	9,571	11,898	4,085	8,788	12,873	24,771
Communications	73,450	931	74,381	962	35,457	36,419	110,800
Equipment leases	2,372	4,355	6,727	3,101	5,230	8,331	15,058
Meetings and conferences	197	587	784	5,448	3,130	8,578	9,362
Affiliate certification	-	57,117	57,117	-	-	-	57,117
Travel	1,028	47,348	48,376	12,323	26,618	38,941	87,317
Professional fees	7,248	13,538	20,786	10,084	19,688	29,772	50,558
Consultants	4,247	32,068	36,315	86,175	33,674	119,849	156,164
Programs	24,548	5,524,048	5,548,596	596	8,424	9,020	5,557,616
Printing	585	4,042	4,627	779	581	1,360	5,987
In-kind expense	-	410,835	410,835	-	-	-	410,835
Miscellaneous	4,866	9,155	14,021	58,209	18,211	76,420	90,441
Depreciation and amortization	1,163	74,699	75,862	1,520	2,564	4,084	79,946
Subtotal	<u>\$ 358,468</u>	<u>\$ 6,801,509</u>	<u>\$ 7,159,977</u>	<u>\$ 602,112</u>	<u>\$ 833,641</u>	<u>\$ 1,435,753</u>	8,595,730
Benefit dinner expenses							<u>318,652</u>
Total							<u>\$ 8,914,382</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 145,129	\$ 355,022	\$ 500,151	\$ 412,242	\$ 403,183	\$ 815,425	\$ 1,315,576
Payroll taxes	10,926	20,234	31,160	35,915	23,337	59,252	90,412
Employee benefits	36,704	75,715	112,419	61,761	82,948	144,709	257,128
Rent and services	27,271	203,271	230,542	30,117	60,733	90,850	321,392
Stationery and supplies	1,042	2,713	3,755	1,748	2,314	4,062	7,817
Postage	630	5,438	6,068	561	5,687	6,248	12,316
Telephone	2,703	5,519	8,222	3,287	6,080	9,367	17,589
Computer systems	15,094	17,592	32,686	14,170	18,997	33,167	65,853
Dues and subscriptions	1,877	10,608	12,485	2,069	16,906	18,975	31,460
Communications	34,384	1,804	36,188	516	23,070	23,586	59,774
Equipment leases	2,833	5,191	8,024	3,065	6,317	9,382	17,406
Meetings and conferences	1,467	292	1,759	17,179	925	18,104	19,863
Affiliate certification	-	55,919	55,919	-	-	-	55,919
Travel	3,882	68,726	72,608	16,909	19,025	35,934	108,542
Professional fees	8,068	14,738	22,806	10,082	22,325	32,407	55,213
Consultants	30,128	29,924	60,052	49,276	53,545	102,821	162,873
Programs	16,877	5,024,125	5,041,002	19,787	40,810	60,597	5,101,599
Printing	10,202	21,595	31,797	549	3,744	4,293	36,090
Bad debt	-	300,000	300,000	-	-	-	300,000
Miscellaneous	3,105	9,781	12,886	57,524	7,379	64,903	77,789
Depreciation and amortization	<u>1,431</u>	<u>71,361</u>	<u>72,792</u>	<u>1,559</u>	<u>3,190</u>	<u>4,749</u>	<u>77,541</u>
Subtotal	<u>\$ 353,753</u>	<u>\$ 6,299,568</u>	<u>\$ 6,653,321</u>	<u>\$ 738,316</u>	<u>\$ 800,515</u>	<u>\$ 1,538,831</u>	8,192,152
Benefit dinner expenses							<u>321,445</u>
Total							<u>\$ 8,513,597</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. ORGANIZATION AND PURPOSE

Keep America Beautiful, Inc. (the "Organization" or KAB) is a nonprofit organization whose network of local, statewide, and international affiliate programs educates individuals about litter prevention and ways to reduce, reuse, recycle, and properly manage waste materials. KAB's mission is to engage individuals in taking greater responsibility for improving their community environments. Through partnerships and strategic alliances with citizens, businesses, and government, KAB programs involve millions of volunteers annually to clean up, beautify, and improve their neighborhoods, thereby creating healthier, safer, and more livable community environments.

The local affiliates are separate nonprofit entities and/or agencies of local governments that are not controlled by KAB, and therefore, their financial position, changes in net assets, and cash flows are not included in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of KAB have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification, which is the source of authoritative accounting principles in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of KAB and changes therein are classified and reported as follows:

Unrestricted Net Assets—Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets—Net assets subject to donor-imposed stipulations that will be met either by actions of KAB and/or the passage of time.

KAB reports gifts of cash and other assets as temporarily restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts received with donor restrictions that are spent in the year received in accordance with those restrictions are reflected as unrestricted contributions.

Functional Allocation of Expenses—KAB allocates its expenses on a functional basis among its various program and supporting services. Expenses that are common to several functions are allocated by various statistical benchmarks. KAB’s program services are described as follows:

Communication and Public Education—This program increases KAB’s recognition and visibility as a national organization that advances its educational purposes by creating greater public awareness of its mission goals and objectives. It also provides information and materials designed to encourage and guide more positive individual behaviors toward community environments.

Program and Field Training Services—These core program activities support the national effort to enlist and train new state and local affiliate organizations to participate in KAB mission-related community improvement activities. The program develops materials, methods, and tools that enable affiliates and individual citizens to implement sustainable community improvement projects.

Programs—Activities pertaining to the use of restricted gifts, the Great American Cleanup (GAC), the I Want To Be Recycled program, and America Recycles Day (ARD) are reflected in the statements of functional expenses in the line item programs.

Cash Equivalents—For purposes of reporting cash flows, cash equivalents are defined as money market funds, overnight deposits, treasury bills, and other instruments with original term to maturity of less than three months at the date of purchase. Cash equivalents are carried at fair value.

Pledges—Pledges are recorded at the net present value, determined using a discount rate commensurate with the rate on US Treasury bills whose maturities correspond to the maturities of the pledges, as receivables in the year made. Restricted pledges are reported as additions to the appropriate restricted net assets. GAC, ARD, and I Want To Be Recycled sponsorship pledges are considered contingent promises to give that are contingent on the Organization holding the GAC or ARD event, and therefore, the promise to give is recognized when the event is held, regardless of when the pledge is made.

The Organization considers any individual donor that contributes more than 10% of total revenue to be significant. The Organization received 49% of the gifts and grants restricted for future periods from three donors and 71% of the gifts and grants restricted for future periods from four donors during the years ended December 31, 2017 and 2016, respectively.

Fixed Assets—Fixed assets purchased are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets with a range of 3 to 10 years.

Use of Estimates—The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

In-Kind Support—KAB recognizes noncash gifts to the Organization, for which fair value can be reasonably determined, as income at fair value in the period in which they are received. The Organization also records an offsetting expense at the same time to record

the use of the gift. The Organization recognized \$410,835 and \$0 of in-kind support during 2017 and 2016, respectively. In-kind support is presented within other income in the statements of activities.

Investments—In accordance with GAAP, KAB values its investments based on a fair value hierarchy. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). See Note 10, Investments, for further discussion relating to the Organization's investments. Management values the investments with the assistance of an investment advisor based on quoted market prices and/or broker quotes. Debt securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing recognized pricing services.

Investments are reflected in the statements of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the statements of activities as unrealized gain (loss) on investments.

Investments in equity securities, municipal bonds, and mutual funds that are publicly traded investments are reported at the market closing price. These investment transactions are recorded on a trade-date basis.

Dividend income and expense are recorded on the ex-dividend date, net of applicable withholding taxes.

Realized gains and losses on investment transactions are determined on a specific identification basis and are recorded as investment income in the statements of activities.

Market and Credit Risk—In the normal course of business, the Organization encounters market and credit risk concentrations. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads, or other market factors.

Credit risk includes the risk of default on the Organization's investments, where the counterparty is unable or unwilling to make required or expected payments.

Income Taxes—The Organization follows the FASB's guidance on uncertain tax positions that may require financial statement recognition. The Organization analyzed its tax filing positions in all jurisdictions required to file tax returns, as well as open tax years in these jurisdictions. Based on this review, no reserves for uncertain tax positions were required to have been recorded in accordance with GAAP in either 2017 or 2016. In addition, the Organization determined that it did not need to record any tax-related interest or penalties in either year. KAB will continue to review the relevant authoritative guidance as it relates to its financial statements and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof. To the extent that the assessment of the conclusions reached regarding uncertain tax position changes, such change in estimate will be recorded in the period in which such determination is made.

Recent Accounting Pronouncements—In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those

goods or services. In August 2015, the FASB issued its final standard formally amending the effective date of the new revenue recognition standard. The amended guidance defers the effective date to annual reporting periods in fiscal years beginning after December 15, 2018. The Organization is in the process of evaluating the impact that this guidance may have on its financial statements.

In January 2016, the FASB issued its new standard on accounting for leases, Accounting Standards Update No. 2016-02. The new standard addresses the off-balance-sheet financing accounting related to lessees' operating leases and introduces a lessee model that brings most leases on the balance sheet. The guidance is effective for calendar periods beginning January 1, 2020. The Organization is in the process of evaluating the impact that this guidance may have on its financial statements.

In August 2016, the FASB issued guidance that significantly changes the presentation requirements for financial statements of not-for-profit entities (NFPs). The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. The guidance is effective for annual reporting periods beginning after December 15, 2017. The Organization is in the process of evaluating the impact that this guidance may have on its financial statements.

3. FEES

To establish a new KAB affiliate, KAB trains local organizational teams, distributes KAB system programs and precertification and certification manuals, and visits the communities during the first year of the program implementation. For these items and services, KAB charges the joining affiliate a certification fee based on its population. Certification fees were \$54,500 and \$43,000 for the years ended December 31, 2017 and 2016, respectively. Once an affiliate is certified, KAB monitors and counsels the affiliate, provides it with various program materials, and sponsors national and regional training conferences for which KAB charges the certified affiliate an annual program service fee, which is also based on population. Program service fees were \$113,575 and \$118,400 for the years ended December 31, 2017 and 2016, respectively. Program administrative fees were \$397,387 and \$458,000 for the years ended December 31, 2017 and 2016, respectively. Of this amount, \$315,359 and \$368,000 was included in gifts and grants restricted for future periods for the years ended December 31, 2017 and 2016, respectively.

4. CASH AND CASH EQUIVALENTS

KAB considers any investment with an original maturity of three months or less at the date of purchase to be cash and cash equivalents. The cash and cash equivalents balance as of December 31, 2017 and 2016, is made up of the following:

	2017	2016
Checking accounts	\$ 1,538,918	\$ 853,749
US Treasury bills	-	1,299,482
Money market fund—sustainability fund (Note 10)	492,915	19,359
Money market fund	<u>216,186</u>	<u>611,524</u>
Total	<u>\$ 2,248,019</u>	<u>\$ 2,784,114</u>

5. CONTRIBUTIONS AND OTHER RECEIVABLES

Receivables of \$812,727 and \$1,043,868 at December 31, 2017 and 2016, respectively, are due within the year. Receivables of \$0 and \$325,000 were due within two years as of December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, the Organization recorded a bad debt expense of \$0 and \$300,000, respectively.

6. FIXED ASSETS

Fixed assets at December 31, 2017 and 2016, consist of the following:

	2017	2016
Furniture, fixtures, and computer equipment	\$ 568,780	\$ 563,814
Less accumulated depreciation and amortization	<u>(481,923)</u>	<u>(401,977)</u>
Fixed assets—net	<u>\$ 86,857</u>	<u>\$ 161,837</u>

7. LEASE COMMITMENT

During 2009, KAB amended its previous lease agreement and entered into a 10-year lease for new space in the same building for their Stamford, Connecticut headquarters. The amended lease is effective through 2019. Rent expense related to this lease was \$233,700 and \$233,700 for the years ended December 31, 2017 and 2016, respectively. The rent agreement provides for reduced rent in the early years and an escalation in the later years. The Organization in accordance with GAAP recognizes the rent expense on a straight-line basis. Therefore, the Organization has accrued a deferred rent liability of \$18,450 and \$27,675 at December 31, 2017 and 2016, respectively, which is included in accounts payable and accrued expenses in the statements of financial position.

As part of the amendment of the lease agreement, KAB paid \$125,000 as an additional rental payment. This amount was paid during 2009 and is being amortized over the 10-year life of the lease. The unamortized balance of \$18,750 and \$31,250 is included in prepaid expenses and other assets at December 31, 2017 and 2016, respectively.

During 2015, KAB entered into a sublease agreement for different office space in Washington, DC. The lease was set to expire during 2017 and was extended into 2018. Rent expense related to this lease was \$28,320 and \$27,930 for the years ended December 31, 2017 and 2016, respectively.

The projected minimum rental commitment under the Organization's two leases as of December 31, 2017, is as follows:

Years Ending December 31	
2018	\$246,000
2019	<u>123,000</u>
Total	<u>\$369,000</u>

KAB leases two copy machines and a postage meter under separate operating lease agreements. The minimum commitments under these leases are as follows:

Years Ending December 31	
2018	\$21,358
2019	21,358
2020	20,209
2021	17,650
2022	<u>1,800</u>
Total	<u>\$82,375</u>

8. DEFERRED INCOME GRANTS

During 2017 and 2016, KAB received registration fees of \$129,417 and \$105,813, respectively, for the National Conference, which was held in January of the following year. As of December 31, 2017 and 2016, the fees were recorded as deferred income in the statements of financial position, as the fees were contingent on the occurrence of the National Conference.

During 2017 and 2016, KAB received contributions from sponsors of \$260,000 and \$350,000, respectively, earmarked specifically and conditionally upon the GAC program to be held during 2018 and 2017, respectively. If the program is not held, the funds must be returned to the donors. These contributions are included in deferred income in the statements of financial position. During 2017 and 2016, KAB recognized \$350,000 and \$250,000, respectively, as contribution revenue when the GAC was held.

During 2016, KAB received a contribution from a sponsor of \$50,000 earmarked specifically for a new program as part of the I Want To Be Recycled campaign. This new program requires additional funding to be raised before it will be given the go-ahead, a process which is still underway as of the date of these financial statements. If the program does not proceed, the funds must be returned to the donor. This contribution is included in deferred income as of December 31, 2017 and 2016, in the statements of financial position.

During 2016, KAB received a contribution from a sponsor of \$50,000 earmarked specifically for a specific recycling campaign. KAB recognized \$50,000 as contribution revenue during 2017 when this program was held.

9. EMPLOYEE BENEFIT PLANS

Defined Contribution Plan—A qualified 403(b) defined contribution pension plan was adopted for all employees on April 30, 2001. Participants may make voluntary contributions to the plan, not to exceed the limitations prescribed by the Internal Revenue Code (IRC). Under the plan, the Organization makes semimonthly elections to match a portion of employees' contribution up to 5%. The Organization's contribution to the plan was \$81,550 and \$91,046 for the years ended December 31, 2017 and 2016, respectively.

10. INVESTMENTS

As of December 31, 2017, the Organization's total investments of \$4,744,215 consist of \$2,953,037 in the KAB Sustainability Fund (the "Fund") and \$1,791,178 in other investment holdings. As of December 31, 2016, the Organization's total investments of \$4,438,817 consist of \$2,927,745 in the Fund and \$1,511,072 in other investment holdings.

KAB Sustainability Fund—In 2006, KAB's Board of Directors established a quasi-endowment to be known as the Fund. The purpose of the Fund is to help ensure the long-term continuity of KAB and its future ability to carry out its charitable mission. The Fund is administered by the executive committee of the board in accordance with the policies adopted by the board. As the Fund is board designated, the amounts are included in unrestricted net assets. All interest and dividend earnings are reinvested into the Fund as they are earned.

At December 31, 2017 and 2016, the Fund consists of the following:

	2017	2016
Cash and cash equivalents	\$ 492,915	\$ 19,359
Investments at fair value	<u>2,953,037</u>	<u>2,927,745</u>
Total	<u>\$ 3,445,952</u>	<u>\$ 2,947,104</u>

Investments within the Fund are made up of the following:

Type	2017		Unrealized Gain (Loss)
	Fair Value	Cost	
Exchange-traded equities	\$ 1,690,513	\$ 904,904	\$785,609
Fixed-income mutual funds	785,888	765,840	20,048
Exchange-traded mutual funds	<u>476,636</u>	<u>370,505</u>	<u>106,131</u>
Total	<u>\$ 2,953,037</u>	<u>\$ 2,041,249</u>	<u>\$911,788</u>
Type	2016		Unrealized Gain (Loss)
	Fair Value	Cost	
Exchange-traded equities	\$ 1,738,727	\$ 1,153,224	\$585,503
Fixed-income mutual funds	744,527	757,687	(13,160)
Exchange-traded mutual funds	<u>444,491</u>	<u>422,908</u>	<u>21,583</u>
Total	<u>\$ 2,927,745</u>	<u>\$ 2,333,819</u>	<u>\$593,926</u>

The Organization has additional investments that are held in a separate account from the Fund and are not restricted. The investments are made up of the following:

Type	2017 Fair Value	Cost	Unrealized Gain (Loss)
US Treasury bills	\$ 942,442	\$ 940,649	\$ 1,793
US agency securities	224,762	224,946	(184)
Fixed-income mutual funds	<u>623,974</u>	<u>629,801</u>	<u>(5,827)</u>
Total	<u>\$ 1,791,178</u>	<u>\$ 1,795,396</u>	<u>\$ (4,218)</u>

Type	2016 Fair Value	Cost	Unrealized Gain (Loss)
US Treasury bills	\$ 598,778	\$ 598,045	\$ 733
US agency securities	149,970	150,248	(278)
Fixed-income mutual funds	<u>762,324</u>	<u>772,478</u>	<u>(10,154)</u>
Total	<u>\$ 1,511,072</u>	<u>\$ 1,520,771</u>	<u>\$ (9,699)</u>

During 2017 and 2016, realized gains of \$134,288 and \$67,456, respectively, were realized as a result of sales of investments and are presented within investment income within the statements of activities.

For the years ended December 31, 2017 and 2016, included in miscellaneous expense in the statements of functional expenses is \$37,944 and \$37,544, respectively, related to the management of the investment accounts.

Fair Value Measurements—Accounting standards require enhanced disclosures about investments that are measured and reported at fair value. A hierarchical disclosure framework has been established, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I—Quoted prices (unadjusted) are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed mutual funds. The Organization does not adjust the quoted price for these investments, even in situations where KAB holds a large position and a sale could reasonably affect the quoted price.

Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate and municipal bonds, less liquid and restricted equity securities where the fair value is based on observable inputs.

Level III—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The levels in the fair value hierarchy that the Organization's investments fall into as of December 31, 2017 and 2016, are as follows:

Type	Total	Level I	Level II	Level III
Exchange-traded equities	\$1,690,513	\$1,690,513	\$ -	\$ -
Fixed-income mutual funds	1,409,862	1,409,862	-	-
US Treasury bills	942,442	942,442	-	-
Exchange-traded mutual funds	476,636	476,636	-	-
US agency securities	<u>224,762</u>	<u>224,762</u>	<u>-</u>	<u>-</u>
Total as of December 31, 2017	<u>\$4,744,215</u>	<u>\$4,744,215</u>	<u>\$ -</u>	<u>\$ -</u>

Type	Total	Level I	Level II	Level III
Exchange-traded equities	\$1,738,727	\$1,738,727	\$ -	\$ -
Fixed-income mutual funds	1,506,851	1,506,851	-	-
Exchange-traded mutual funds	444,491	444,491	-	-
US Treasury bills	598,778	598,778	-	-
US agency securities	<u>149,970</u>	<u>149,970</u>	<u>-</u>	<u>-</u>
Total as of December 31, 2016	<u>\$4,438,817</u>	<u>\$4,438,817</u>	<u>\$ -</u>	<u>\$ -</u>

As discussed in Note 4, Cash and Cash Equivalents, KAB has \$709,101 and \$630,883 in money market funds as well as \$0 and \$1,299,482 in US Treasury bills with maturity of less than three months at the date of purchase as of December 31, 2017 and 2016, respectively, that are considered to be Level I.

There were no transfers between Level I and II, and the Organization held no Level III investments during the years ended December 31, 2017 and 2016.

11. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017 and 2016, temporarily restricted net assets are composed of the following:

	2017	2016
Purpose restrictions:		
Cigarette Litter Prevention Program 2018	\$ 600,000	\$ -
Dr. Pepper	351,000	718,150
Ad Council Recycling Program	275,900	618,000
Litter Research	252,955	248,774
Wrigley Litter Prevention	210,463	219,511
Altria Project	171,773	168,242
UPS	163,470	166,900
Community Restoration & Resiliency Fund	162,296	-
National Conference	152,550	114,500
Lowes Grants	92,153	33,275
Pass-through Grants	89,968	-
Cigarette Litter Prevention Program 2017	111,953	585,000
Recyclemania	79,398	103,904
Great American Cleanup 2018	65,500	-
Bud Light Disaster Relief Grants	54,000	50,000
Marlboro Program	53,365	-
America Recycles Day	50,000	-
Washington DC Office Programs	48,595	-
Vision Dinner	45,000	70,000
Digital Refresh	25,000	35,000
Affiliate Certification Grants 2018	25,000	-
KAB Mission Support	20,000	120,000
CURC	14,080	18,201
Blight Study	14,078	9,610
Hawaii Project	9,600	15,000
Coca Cola/KAB Public Space Recycling Program	6,687	27,604
H.O. Peet Internship Scholarships	2,089	6,957
Flint Project	2,000	60,915
Community Foundation for the National Capital Region	1,464	2,378
Nestle Recycling	-	80,021
Recyclemania Cycle 2	-	75,238
Coca Cola Chicago	-	26,971
Cigarette Litter Prevention Program 2016	-	45,265
Waste Management Communities	-	13,323
Harmony Paint Program	-	8,455
	<u>\$ 3,150,337</u>	<u>\$ 3,641,194</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets as of December 31, 2017 and 2016, were released from donor-imposed restrictions by the incurrence of expenses in the following programs:

	2017	2016
Ad Council Recycling Program	\$ 618,000	\$ 200,000
Lowes Grants	542,228	738,986
Marlboro	497,785	-
Cigarette Litter Prevention Program 2017	473,047	-
Dr. Pepper	367,150	289,809
Coca Cola/KAB Public Space Recycling Program	320,917	281,422
Wrigley Litter Prevention	200,552	169,184
UPS	153,430	48,551
Litter Research	101,819	103,986
KAB Mission Support	100,000	-
National Conference	99,500	106,300
Nestle Recycling Program	80,021	69,979
Community Restoration & Resiliency Fund	75,409	-
Recyclemania Cycle 2	75,238	74,996
Litter Prevention and Recycling Campaign	70,000	32,217
Flint Project	58,915	89,085
Bud Light Disaster Relief	47,000	51,119
Cigarette Litter Prevention Program 2016	45,265	334,724
Pass-through Grants	81,032	2,500
Digital Refresh	35,000	157,785
Coca Cola Chicago	26,971	14,503
Recyclemania	24,506	62,084
Waste Management Communities	13,323	19,152
Blight Study	10,532	5,390
Hawaii Project	5,400	-
H.O. Peet Internship Scholarships	4,868	4,411
CURC	4,121	-
Harmony Paint Program	1,739	-
Altria Project	1,469	81,758
Washington DC Office Programs	1,405	-
Community Foundation for the National Capital Region	914	7,651
America Recycles Day	-	250,000
Cigarette Litter Prevention Program 2015	-	140,558
Affiliate Development	-	56,286
Vision Dinner	-	35,000
Aloca Grant Programs	-	23,333
Coca Cola/KAB College Recycling Program	-	12,867
State Leaders Council	-	10,000
Pepsi Research Grant	-	5,000
	<u>\$ 4,137,556</u>	<u>\$ 3,478,636</u>

13. TAX-EXEMPT STATUS

KAB has received a favorable letter of determination from the Internal Revenue Service dated October 31, 1955, and is, therefore, tax-exempt under Section 501(c)(3) of the IRC of 1986. In addition, based on a determination letter dated October 20, 1970, KAB has not been classified as a private foundation under Section 509(a) of the IRC. Since the date of these letters, no changes have occurred in the form, purpose, or activities of KAB that would adversely affect its tax-exempt status or classification under the provisions of the IRC.

14. SUBSEQUENT EVENTS

Management has evaluated all subsequent events or transactions for potential recognition or disclosure through June 14, 2018, the date these financial statements were available to be issued. As a result of the Organization’s evaluation, except as noted, there were no subsequent events noted that require adjustment to, or disclosure in, these financial statements.

15. IN-KIND REVENUE (UNAUDITED)

In addition to the in-kind revenue recognized by the Organization and discussed in Note 2, the Organization also receives donated media, which it considers to be a contribution as it is a voluntary nonreciprocal transfer from other entities, which supports program services. However, the valuation of donated media has not been recognized as revenue in the years ended December 31, 2017 or 2016, as management is unable to reasonably determine the fair market value of the donated media. Accordingly, donated media is not recognized as in-kind revenue or expense in the accompanying financial statements. During the years ended December 31, 2017 and 2016, the Organization’s I Want To Be Recycled campaign in partnership with the Ad Council received \$30,901,324 and \$47,089,502, respectively, in donated media support, mainly through television and radio, as estimated by the Ad Council.

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